



Sales per Store Improve

Herfy announced encouraging 2Q19 topline growth with restaurant sales gaining +8% Y/Y and sales-per-store improving +5% Y/Y. Pace of store additions has slowed as focus remains on optimizing network and capturing market share – alleviating investor concerns. IFRS 16 raised depreciation and financing expenses as EPS declined -11% Y/Y to SAR 0.63, missing our SAR 0.69 forecast. While shares are fully valued, we maintain Buy on the view that further performance improvement is on the cards. Our SAR 58 target price, represents 14.1x 2020E EV/EBITDA.

Restaurant sales recovering

Total revenues of SAR 309 mln (+8% Y/Y) topped our and consensus estimates. Through 1H19, restaurant sales gained +8% Y/Y to SAR 533 mln, while meat and bakery increased +45% and +3%, respectively. Following a downturn in the last two years, sales per store are resurging to an average SAR 1.42 mln (+5% Y/Y) in 1H19. Herfy has focused on improving the network and format by winding-down underperforming locations. Further, we believe the Company may have captured QSR market share from struggling stand-alone competitors.

Dramatic increase in SG&A

We highlight a dramatic increase in SG&A expenses during the quarter at +31% Y/Y. Note that employee costs are the largest component and may have been the key driver behind the increase. Higher fees on foreign workers coupled with wage inflation are pushing salary expense.

Finance costs rise on IFRS 16

Adoption of IFRS 16 has resulted in higher financing cost, SAR 8.9 mln vs SAR 3.4 mln in year ago period. Consequently, net income declined -11% Y/Y to SAR 41 mln, shy of our SAR 44 mln forecast. Note that depreciation is also higher due to IFRS 16 which was applied as of Jan-2019 (last year figures not restated).

Store additions have eased

Investors were concerned about the pace of store additions diluting overall performance. Herfy added some 20 and 21 stores in 2017 and 2018, respectively, in a backdrop of longer maturing cycle. It seems that management is responding to investor concerns as the Company has slowed additions to 6 in 1H19. In our view, attention may shift to overseas franchises where Herfy will collect a fee.

SAR mln	2Q19	2Q19E	2Q18	YY Chg	1Q19	Q/Q Chg	Variance	Consensus
Sales	309	298	287	8%	313	-1%	4%	
Gross profit	88	86	79	12%	94	-6%	2%	
Gross margin	28%	29%	27%		30%			
EBITDA	54	75	69	-22%	99	-46%	-28%	
EBITDA margin	17%	25%	24%		32%			
Operating profit	51	55	50	2%	59	-14%	-7%	
Operating margin	17%	18%	17%		19%			
Net income	41	44	46	-11%	48	-15%	-8%	49
Net margin	13%	15%	16%		15%			16%
EPS (SAR)	0.63	0.69	0.71	-11%	0.74	-15%	-8%	0.76

SAR 58

Buy

12-Month Target price

Recommendation

Stock Details			
Last Close Price	SAR	56.20	
Upside to target	%	3.2	
Market Capitalization	SAR mln	3,635	
Shares Outstanding	mln	65	
52-Week High	SAR	59.70	
52-Week Low	SAR	38.00	
Price Change (YTD)	%	23.2	
3-Mth ADTV	thd	54	
EBITDA 2019E	SAR mln	315	
Reuters / Bloomberg	6002.SE	HERFY AB	

SAR mln	2018	2019E	2020E
Revenues	1,227	1,286	1,338
Gross Margin	28%	28%	28%
EBIT	221	234	237
Operating Margin	18%	18%	18%
Net Income	204	221	225
Net Margin	17%	17%	17%
EPS (SAR)	3.16	3.42	3.48
DPS (SAR)	2.10	2.25	2.50

Price Multiples	2018	2019E	2020E
P / E	17.8x	16.5x	16.2x
EV / EBITDA	14.8x	14.0x	13.7x
P / S	3.0x	2.8x	2.7x
P / B	3.9x	3.6x	3.4x



Source: Bloomberg, Tadawul, SFC

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Rating Framework

BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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